



House Policy Committee

Chairman John Shadegg

Pozen Progressive Indexing Plan

Social Security Proposal Discussed by President Bush

Opponents of Social Security reform argue that Republicans want to hurt the poor while helping Wall Street. Nothing could be further from the truth.

In fact, a reform proposal called “progressive indexing”, which President Bush mentioned during his press conference last Thursday, would protect those who most need Social Security – lower and lower-middle income Americans – while trimming the rate of planned growth in benefits for the wealthy, who need it less.

The key is the rate used to calculate a worker’s initial Social Security benefit. In the early 1970s, Social Security benefit increases were based on the Consumer Price Index (CPI) - a method called price-indexing. But faced with the bleak “stagflation” of the economy in the Disco Era, politicians opted for a quick fix. In 1977 Congress passed, and President Carter signed, a change to calculate the initial benefits based on wages, which generally rise faster than prices.

Robert Pozen, a Democrat and member of President Bush’s Commission to Strengthen Social Security proposed today’s progressive indexing proposal. The plan would not change anything for people whose career earnings average \$25,000 or less (the bottom third of wage-earners in America). Their initial Social Security benefits would continue to be tied to the increase in wages.

Starting in 2012, however, the highest-paid third of American workers (with career earnings average more than \$113,000) would get initial Social Security benefits based on the old price-indexing system.

For the middle third – workers who earn between \$25,001 to \$113,000 - we would use a blend of wage and price indexing.

It is estimated that Pozen’s progressive indexing plan would reduce the \$3.8 trillion deficit facing Social Security over the next 75 years by 70 percent.

None of this would affect the annual Cost-of-Living Adjustments (COLAs) in Social Security payments to current beneficiaries, which have always been based on price indexing.

To view Robert Pozen’s presentation handout to the House Republican Policy Committee, please go to policy.house.gov